

Article by the Principal Deputy High Representative, Donald Hays

There is a sense today in Bosnia and Herzegovina that economic reform is beginning to take on a momentum of its own. This is critical if this country is to find its proper place in Europe and in the world's market place. Reform means more than just sweeping away outdated legislation and privatization. It means changing an entire mindset – from waiting for services to be granted to taking things into one's own hands – thus creating opportunities. BiH and its citizens need to begin to create their own opportunities. If they create a welcoming environment for investment, they create new jobs. No new investment will certainly mean fewer jobs, not more. The one thing BiH desperately needs right now is quality jobs – lots of them, and it needs to create them now!

Reform is generating its own momentum because it makes sense. We've seen this recently in the public utilities sector. In August last year, the High Representative, Paddy Ashdown, launched the special audit process to ensure that revenues in public companies and government departments are properly handled, and that all reasonable precautions are taken to ensure the proper use of public funds. Among the first companies to be audited were the Elektroprivredas.

The Elektroprivredas have been described as the "crown jewels" of BiH – the country's most valuable commercial assets.

They are.

They belong to the citizens of this country and they have the potential to promote investment and profits for the people. However, that is not what the audits uncovered.

What did the audits find? They found that if Elektroprivreda Sarajevo were run more efficiently it could well earn 50 million KM more every year; they found that Elektroprivreda RS was losing 166 million KM annually because of corruption and mismanagement, and they found that losses through corruption at Elektroprivreda Mostar were running at around 50 million KM every year.

Following the Special Auditor's reports, the High Representative has ensured that the relevant government authorities have instituted programs to clean up the Elektroprivredas. These companies should now start serving citizens and halt the theft of public funds. One of the common themes of all three reports was that senior managers at the companies did not see themselves as serving this country, or citizens, or their customers. They viewed the Elektroprivredas as a personal bank account for themselves and their political masters. This corporate culture of greed and insider manipulation has to change and change now.

The details in the audit reports were so damning, the evidence so conclusive, the facts so incontrovertible that those that benefited from corruption in the Elektroprivredas were noticeably muted in their public expressions of indignation.

However, in order to redirect the bright light of public scrutiny they did suggest that – the special audits were actually a cunning ploy by the International Community designed to lower the value of the Elektroprivredas. The truth is that by cleaning up the Elektroprivredas, the special audit process will certainly make these corporations *more* valuable not less valuable. It was the mismanagement of these companies in fact that *reduced* their current value. It also reduced their attractiveness to international investors. These companies were being run into the ground. Now with proper oversight, they will be rehabilitated. The World Bank is ready to spend millions on restructuring the BiH electricity generation sector in order to improve services and

profitability. This is certainly not an effort to reduce the value of the Elektroprivredas.

The audit process highlighted the indispensability of good corporate governance – government officials and managers at public companies must recognize that they are responsible to citizens and customers, not to their political cronies and friends. The audits pointed to the crucial importance of proper management procedures, and efficient internal auditing practices, cash management, procurement, tendering procedures, and diversification strategies, and properly supervised loans and donations. Politicians have been careful not to criticise any of this in public because it is very clear that improvements in these areas will serve the people. No politician wants to be seen arguing against that.

Other public companies and government ministries will be audited. This process will produce a systematic clean up – when the facts are made public the need for reform becomes clear.

Reform will encourage investment. Investment will create jobs. When the politicians of this country join this process and embrace this effort – investment will come sooner; jobs will be created faster.

This is why economic reform has assumed a momentum of its own – not because the International Community is pushing it, but because it makes sense and the people of this country are beginning to demand change. It will deliver benefits to the people, and few politicians want to be seen standing in the way of that.